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Implementation Of The Bulk Mail Facility Concept
Pittsburgh, Pennsylvania B-171594

United States Postal Service

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

SEPT. 7, 1971

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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Dear Mr. Gross:

Your letter dated February 4, 1971, requested us to examine into certain aspects of the postal building project in Pittsburgh, Pennsylvania. On March 8, 1971, we furnished you with an interim report on the accuracy of some of the financial and other information contained in your letter. This report adds to or clarifies the data previously furnished to you and completes our reporting on this matter.

The Postal Service has incurred costs of at least ⁵² \$881,000 for the development of general specifications for the Pittsburgh facility, for specific designs for the layout of machinery to process mail, and for a building to accommodate the machinery. We believe that this work will be of limited benefit to the Postal Service because of changed concepts for processing mail and because design contracts were awarded before the general specifications--which serve as the basis for the design work--were developed for a nationwide network of bulk mail facilities.

About \$240,000 was spent under a contract for the design of a building in which letter mail and bulk mail were to be processed. The contract was terminated when the Postal Service changed its concepts for processing mail and implemented the bulk mail facilities program--a system whereby packages and other bulk mail, such as advertising circulars, would be handled in facilities separate from those in which letter mail was processed.

Costs of about \$24,000 were incurred in developing general specifications for a separate bulk mail facility on the basis that the facility would serve the immediate Pittsburgh area. The Postal Service, however, determined that a larger facility was needed when it decided to incorporate the Pittsburgh facility into a nationwide network of bulk mail facilities.

The remaining \$617,000 was expended under contracts for developing general specifications for the Pittsburgh bulk mail facility, for equipment layout, and for building design which would be used in the nationwide network. In an effort to make the Pittsburgh bulk mail facility operational as soon as possible, the Postal Service awarded these contracts without waiting for the results of a study undertaken to develop the size and interrelationship of a nationwide network of bulk mail facilities.

The study report indicated that the facility at Pittsburgh would have to be about 75 percent larger than the one that was being considered and for which design contracts had been awarded. Therefore work under the contracts was stopped but not before costs of \$617,000 had been incurred--\$11,000 for the development of general specifications for the facility, \$493,000 for the equipment layout design, and \$113,000 for the building design.

Statements made by the Assistant Postmaster General, Department of Research and Engineering, indicated that the Postal Service was aware that awarding these contracts, prior to receiving the results of the nationwide bulk mail facility study, carried with it some risk. We believe that the risk taken by the Postal Service seems to have involved a trade-off between the possibility of expediting the completion of the facility (and the accompanying annual savings) and the possibility that money would be spent with limited benefit accruing to the Postal Service.

In April 1971 the equipment layout design for the expanded Pittsburgh bulk mail facility was being prepared. Postal Service records indicate that the contract for the design of the facility, which has been suspended temporarily, will be renegotiated.

A chronology of pertinent events relating to the postal building project in Pittsburgh is presented in enclosure I. Detailed comments follow.

COMBINED BULK AND LETTER MAIL FACILITY

A study by the Postal Service in 1967 disclosed that the mail-processing operations in the main post office in Pittsburgh, which is located in a congested downtown business area, were hampered by inadequate space which precluded the utilization of major mechanized equipment.

The study indicated that an increasing volume of mail was being processed in various leased facilities in the Pittsburgh area and that, although the leased facilities provided a temporary solution for handling the increasing mail volume, the facilities did not provide for an efficient mail-processing operation. Also shuttle service between the various facilities was expensive.

As a solution the Postal Service proposed the construction of a consolidated facility capable of handling future volume and located to accommodate the changing transportation patterns. In May 1968 the House and Senate Committees on Public Works approved the construction of the postal facility in the Pittsburgh area.

The Postal Service solicited 89 architect-engineering firms in August 1968 for proposals to design the facility; 20 firms responded. Of these firms, the firm of Deeter, Ritchey, Sippel & Associates, and Michael Baker, Jr., Inc. (a joint venture), was selected. In January 1969 the Postal Service negotiated a fixed-price contract with the firm in the amount of \$1,535,600 for the design, within a construction cost limitation of \$35,113,000, of a post office and vehicle maintenance facility. The amount of the contract included \$410,600 for supervision and services during construction of the facility.

The Postal Service suspended work on the design contract in August 1969 and terminated the contract in May 1970. The Postal Service decided, on the basis of various studies, that it would be economically advantageous to process bulk mail in a separate facility. The Postal Service paid the contractor \$240,000 for work performed under the design contract.

SEPARATE BULK MAIL FACILITY

The Postal Service's bulk mail facilities program--a system whereby packages and other bulk mail, such as advertising circulars, will be handled in facilities other than those in which letter mail is processed--is to consist of 21 major facilities (one of which is to be located in the Pittsburgh area) and 12 satellite facilities and is estimated to cost about \$950 million to implement.

The Postal Service expects that the system will be fully implemented by June 1975 and will result in an annual reduction in operating costs of about \$300 million. A map showing the planned bulk mail facilities network is presented in enclosure II.

The bulk mail facility to be constructed in the Pittsburgh area will have a satellite facility in Buffalo, New York. These facilities will serve areas in Pennsylvania, New York, Ohio, and West Virginia. The Postal Service's estimated cost of constructing the Pittsburgh facility is \$17,986,000 and of acquiring the equipment is \$39,559,000. The Postal Service has made a commitment for \$750,000 to purchase land for the site of the facility. As of June 8, 1971, an estimate of the site preparation costs was not made.

Feasibility and general specification studies

In July 1969 the Postal Service contracted with Drake Sheahan/Stewart Dougall, Inc., to study the Pittsburgh area to determine whether work on the combined letter and bulk mail facility should be continued. The firm had previously made a study of mail flow in the New York City area and had recommended that a separate bulk mail facility be considered for that area. In August 1969 the firm made a similar recommendation for the Pittsburgh area.

The Postal Service then requested the firm to prepare general specifications which would serve as the basis for the design of the equipment layout and the separate bulk mail facility. In November 1969 the firm submitted its specifications report for a single bulk mail facility serving the immediate Pittsburgh area. Costs of about \$24,000, including a \$2,000 fee, were incurred under the contract. Under the nationwide bulk mail network concept which was subsequently developed, the Pittsburgh facility was to serve an expanded area and thus had to be designed to different specifications.

Because mail flow studies in New York and Pittsburgh had indicated the feasibility of separate bulk mail facilities, the Postal Service in October 1969 solicited proposals for a study to (1) determine the feasibility and (2) if warranted, to develop the size and interrelationship of a nationwide bulk mail facilities network. The Postal

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Service accepted the proposal submitted by the International Business Machines Corporation (IBM) and awarded a contract to IBM on March 20, 1970. It was anticipated that the study would require about 9 months to complete.

In view of the anticipated duration of the nationwide study, the Postal Service contracted with Drake Sheahan/Stewart Dougall, Inc., to make a quick study to evaluate the feasibility of and to develop a reasonable configuration for a national bulk mail system. Also the firm was to determine whether a national facility should be located at Pittsburgh and, if so, to develop general specifications for the facility so that its completion could be expedited.

The firm reported that a national bulk mail system would be economically justifiable and recommended that a bulk mail facility be constructed in Pittsburgh. The firm also prepared general specifications for the facility. The work was performed between January 1970 and April 1970 at an estimated cost of \$34,000, including a \$3,000 fee.

Of the estimated costs of \$34,000, about \$11,000 was for the development of general specifications which were of limited benefit because the subsequent IBM study resulted in the development of different specifications.

The IBM study was completed in December 1970 and set forth the size, interrelationship, and general specifications for a nationwide network of bulk mail facilities.

Equipment layout design

To obtain an operational bulk mail facility at Pittsburgh as soon as possible, the Postal Service, in April 1970, awarded a contract to Lester B. Knight & Associates, Inc., in the amount of \$100,000 to begin work on the design of the equipment layout on the basis of the general specifications prepared by Drake Sheahan/Stewart Dougall, Inc.

In November 1970 a cost-plus-fixed-fee contract was awarded to Lester B. Knight & Associates, Inc., at an estimated cost of \$642,000, including a fee of \$57,000, to complete the equipment layout design work. The Postal Service awarded these contracts even though it was aware that the IBM study might have some effect on the general specifications for the facility.

The Assistant Postmaster General, Department of Research and Engineering, said during a meeting of Postal officials in April 1970 that this course of action carried with it some risk that the project, as planned, might have to undergo some redesign to conform substantially with findings by IBM. He said he was prepared to take this risk in order not to delay construction of the bulk facilities pending completion of the IBM study.

The IBM study was completed in December 1970. In January 1971, or about 8 months after work began under the equipment layout design contract, the Postal Service instructed the contractor to stop work under the contract because the IBM study had indicated that the size of the Pittsburgh facility would have to be increased due to mail volume density and its relationship to other bulk mail facilities. The study indicated also that the increase in the size of the facility would require a major change in the equipment layout design for the facility.

The Postal Service paid Lester B. Knight & Associates, Inc., \$493,000 for work performed which, because of the major changes required in the design of the facility, would be of limited benefit to the Postal Service.

Building design

The design of the Pittsburgh bulk mail facility was dependent upon the design of the equipment layout. By September 1970 Lester B. Knight & Associates, Inc., had prepared sufficient equipment layout designs to permit the Postal Service to negotiate a contract for the design of the facility.

In November 1970, 1 month before the IBM study was completed, the Postal Service awarded a negotiated fixed-price contract in the amount of \$693,000 to Deeter, Ritchey, Sippel & Associates, and Michael Baker, Jr., Inc., for the design, within a cost limitation of \$11,220,000, of the Pittsburgh bulk mail facility. The contract amount included \$195,000 for supervision and service during the construction of the facility--implementation of this part of the contract being at the option of the Postal Service.

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The Postal Service records indicated that the firm was awarded the design contract primarily because the Postal Service was pleased with the firm's work under the contract for the design of the combined bulk and letter mail facility.

As noted previously, the IBM study resulted in major changes in the equipment layout design for the facility. In January 1971 the Postal Service suspended work under the contract for the design of the facility, pending the availability of new equipment layout designs. The Postal Service paid the firm \$113,000 for the facility design work. In an intra-departmental memorandum a postal official stated that the majority of the design effort did not coincide with the new-facility concept and would have to be redone and that such work could not commence until the revised equipment layout had been developed.

The award of the facility design contract 1 month before the IBM study was completed is questionable. It seems reasonable that the Postal Service should have been aware of the imminent release of a study which could have an effect on the design of the facility.

The IBM study was conducted under the supervision of the Department of Research and Engineering, and the facility design contract was under the supervision of the Department of Facilities. According to an official of the Department of Facilities, there was a need for better coordination between the two Departments particularly regarding the impact of the IBM study on the design of the bulk mail facilities.

Status as of April 1971

As of April 1971 A. T. Kearney & Company, Inc., under a negotiated contract awarded by the Postal Service on March 25, 1971, was preparing, on the basis of the IBM study, an equipment layout design for various bulk mail facilities, including the one at Pittsburgh. Postal Service records indicate that, when the general equipment layout is determined, the Postal Service intends to renegotiate the contract with Deeter, Ritchey, Sippel & Associates, and Michael Baker, Jr., Inc., for design of the Pittsburgh facility.

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The facility is to be located on 75 acres in the 665-acre Thorn Hill Industrial Park about 15 miles northwest of Pittsburgh. The park is owned by the Commonwealth of Pennsylvania and is managed by the Regional Industrial Development Corporation of Southwestern Pennsylvania, a nonprofit organization.

In November 1970 the Postal Service entered into an agreement, to be consummated by November 1971, with the development corporation for the purchase of the site at a negotiated price of \$750,000, a reduction of \$150,000 from the asking price and \$75,000 less than the appraised value for the site. Although the agreement to purchase the site was entered into before the completion of the IBM study, postal officials informed us that the study did not result in significantly changing the land needs.

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We have not requested the Postal Service or the contractors to review or formally comment on the information contained in this report. We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,



~~Noting~~ Comptroller General
of the United States

Enclosure

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cl / The Honorable H. R. Gross
House of Representatives

ENCLOSURE I

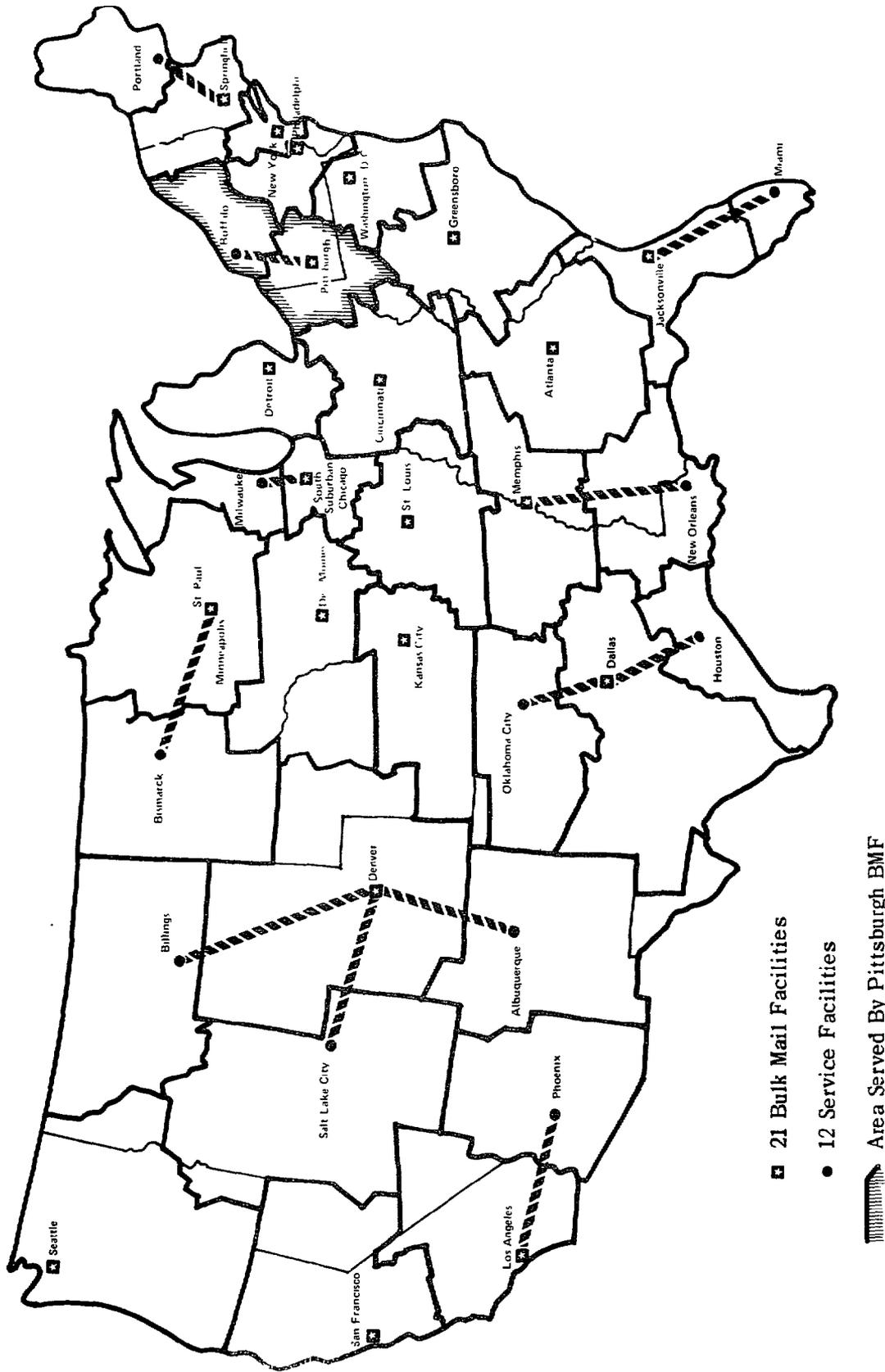
PERTINENT EVENTS RELATING TO THE
PITTSBURGH BULK MAIL FACILITY

- January 1969 Contract was awarded to Deeter, Ritchey, Sippel & Associates, and Michael Baker, Jr., Inc., in the amount of \$1,535,600 for the design of a combined letter and bulk mail facility.
- July 1969 Contract was awarded to Drake Sheahan/Stewart Dougall, Inc., to determine whether work on the combined facility should be continued.
- August 1969 Drake Sheahan/Stewart Dougall, Inc., recommended a separate bulk mail facility for the Pittsburgh area. The firm subsequently was requested to prepare general specifications for the facility.
- August 1969 Contract for design of the combined facility was suspended.
- October 1969 Postal Service began to solicit proposals to determine the feasibility of a nationwide bulk mail facilities network.
- November 1969 Drake Sheahan/Stewart Dougall, Inc., developed general specifications for a separate bulk mail facility at Pittsburgh but not on the basis of a concept that the facility would be part of a nationwide network of bulk mail facilities. (Cost to the Postal Service was \$24,000.)
- January to April 1970 Drake Sheahan/Stewart Dougall, Inc., worked on a study to (1) evaluate the feasibility of a nationwide bulk mail facilities network, (2) determine whether a facility should be located at Pittsburgh, and (3) develop specifications for such a facility. (Cost to the Postal Service was \$34,000.)

ENCLOSURE I

- March 1970 IBM was awarded a contract to determine the size, interrelationship, and general specifications for a nationwide network of bulk mail facilities.
- April 1970 Contract was awarded to Lester B. Knight & Associates, Inc., for \$100,000 to begin design of equipment layout on the basis of the Drake Sheahan/Stewart Dougall, Inc., study.
- May 1970 Contract for design of the combined facility, which was suspended in August 1969, was terminated. (Cost to the Postal Service was \$240,000.)
- November 1970 Contract awarded to Lester B. Knight & Associates, Inc., for \$642,000 for completion of the equipment layout design work. (Superseded the April 1970 contract with Lester B. Knight & Associates, Inc.)
- November 1970 Contract awarded to Deeter, Ritchey, Sippel & Associates, and Michael Baker, Jr., Inc., for \$693,000 for design of the bulk mail facility on the basis of the Lester B. Knight & Associates' equipment layout design work.
- December 1970 IBM completed its study.
- January 1971 Lester B. Knight & Associates, Inc., was instructed to stop work on the equipment layout design because the IBM study had indicated the need for a larger facility at Pittsburgh. (Cost to the Postal Service was \$493,000.)
- January 1971 Contract with Deeter, Ritchey, Sippel & Associates, and Michael Baker, Jr., Inc., for design of the bulk mail facility was suspended pending availability of new equipment layout designs. (Cost to the Postal Service was \$113,000.)
- April 1971 As of April 1971 A. T. Kearney & Company, Inc., on the basis of the IBM study, was preparing an equipment layout design for various bulk mail facilities, including the one at Pittsburgh.

NATIONAL BULK MAIL CONFIGURATION



- 21 Bulk Mail Facilities
- 12 Service Facilities
- ▨ Area Served By Pittsburgh BMF